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\$300m credit line will keep Hong Nin's doors open

By CECILIA KO

THE Commissioner for Banking, Mr Robert Fell, yesterday assumed control of the Hong Nin Bank, marking the seventh time in three years that the Hongkong Government has intervened directly in the banking sector.

Hong Nin, launched 64 years ago, is owned by the China Hong Nin Life Insurance Company, a company controlled by Mr Lee Ping-chiu and his family.

It operates with only four branches and has deposits of \$300 million.

An announcement from Mr Fell yesterday said he had placed the Hong Nin under his control "because a combination of events has increased pressure on the bank's liquidity, which was already at a low level, and an immediate improvement in the management of the bank's loan portfolio is called for".

While the intervention of the authorities stops short of an outright takeover, the strategy which had applied in cases of the Hang Lung Bank and Overseas Trust Bank,

credit lines will be extended by the Exchange Fund, Hongkong's foreign reserve.

According to Mr Fell the extension of the credit line, which could amount to \$300 million, will be a temporary measure, and the bank will remain open and meet all its obligations.

Several members of the Legislative Council yesterday demanded the Government clarify its position in using the Exchange Fund again, claiming the Government had hinted after each of the last three rescues that each would be the last (See Page 2).

Hong Nin's directors will hold office, but will relinquish executive authority to the Banking Commissioner, whose function is to manage the bank for the benefit of its depositors and other creditors.

The announcement on Hong Nin came a complete surprise as First Pacific Holdings, a finance group in Hongkong, had already announced its intention in principle of buying Hong Nin.

● Full report - Business Post Page 1

Discussions with First Pacific will continue, according to Mr Fell, and he was confident of a solution.

However, he conceded that if the negotiations with the bidder were unsuccessful, Hong Nin might be liquidated.

It is believed the difficulties at Hong Nin came to light during the course of First Pacific's examination of the target bank, and by last Thursday it was clear the deal would have to be put off.

By the weekend the Banking Commission was involved, and a decision to invoke Section 52 (1) (c) of the Banking Ordinance was taken yesterday morning.

By early afternoon the probability of an announcement concerning Hong Nin was under wide discussion in banking and stockmarket circles, and the issue was being linked to a larger question of the apparent financial difficulties facing a prominent Hongkong businessman.

Market sources said yesterday it was believed the financier was unable to meet substantial commitments to Hong Nin, and was attempting to sell certain assets to meet obligations said to total more than \$100 million.

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\$300m extended to struggling Hong Nin

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This could not be confirmed, but sources close to the bank said an exposure of more than \$100 million to a single customer could have precipitated the recent crisis.

Emphasising that fraud was not suspected in the difficulties facing Hong Nin, Mr Fell attributed the decline in fortunes to problems stemming from weak management and bad and doubtful loans linked to local interests.

Standard Chartered Bank, one of Hongkong's two note-issuing banks, will provide management resources to

help Mr Fell in controlling Hong Nin.

Just two months ago, Mr Fell relinquished control of another small local bank, the Union Bank of Hongkong, when a joint venture including the China-backed China Merchants Steam Navigation and US-based Search International acquired it.

In Union Bank's case, Jardine Fleming had been called in as the manager, and handed over to the new management after several weeks of operation, which gave the Banking Commission a yardstick for such operations.